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1942

INTERNATIONAL SHOE Co.

1509 WASHINGTON AVENUE

ST. LOUIS, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1942

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CORP. FILE

1942

INTERNATIONAL SHOE CO.

1508 WASHINGTON AVENUE

ST. LOUIS, MO.

FINANCIAL STATEMENT

NOVEMBER 30, 1942

January 8, 1943

TO OUR STOCKHOLDERS:

Financial report showing the results of the International Shoe Company's operation for the fiscal year ended November 30, 1942 is submitted herewith.

Net Income for the year was \$6,994,952 which represents an earning of \$2.08 a share on the Common Stock. This compares with \$7,207,037 or \$2.15 a share last year. Federal income and excess profits taxes were almost four times those of last year, being \$9,744,056 in 1942 against \$2,484,042 in 1941.

Net sales to customers were \$144,256,388 compared with \$116,530,243 last year.

The Company's own supply plants (tanneries, cotton mill, rubber plant, etc.) produced during the year for its own use shoe materials and supplies to the value of \$75,053,414 which combined with our sales made an aggregate of \$219,309,802 business transacted.

Our factories produced 54,983,694 pairs of shoes, against 56,609,462 last year (canvas rubber soled shoes excluded).

After applying Government Tax Notes in an amount equal to the provision for federal income and excess profits taxes, the Company's current assets of \$68,506,200 are thirteen times its current liabilities of \$5,101,318.

PRODUCTION AND SHIPMENTS

Shipments were the greatest in the Company's history both in pairs of shoes and in dollars.

The high rate of production with which the year began continued until about the close of the third quarter, when lower production became necessary because of difficulty in obtaining materials and available manpower. However, despite the forced curtailment in the closing months of the year, the total annual production exceeded all previous years except 1941.

From the beginning of the defense program our Company has been the largest producer of military shoes for the Government, and this production has been an increasingly important part of our output this year. Government business amounted to 16% of our dollar volume and accounted for 11% of our production in pairs.

WORKING CAPITAL

Despite the substantial increase in volume of business, the Company closed the year in its usual very liquid position.

Accounts receivable were \$4,400,000 less in amount than at the beginning of the year, while inventories declined \$1,600,000. The combined total of cash and United States Government securities increased approximately \$15,000,000. The balance sheet has been prepared to reflect the Company's position after applying sufficient Government securities to pay federal income and excess profits taxes in full.

At one time during the year when both inventories and accounts receivable were at a seasonal peak, all of the Company's cash was needed in its business, bank balances being down to a practical working minimum.

**INVENTORY VALUATION—
“LAST-IN, FIRST-OUT” METHOD**

In the accompanying financial statement, the use of the “Last-In, First-Out” method of inventory valuation has been extended to the inventory of

finished shoes and shoes in process. This method was adopted with respect to principal raw materials, hides and leather, during the fiscal year 1941, so that now approximately two-thirds of our inventories are determined on the "Last-In, First-Out" method.

Because of this change, inventories are valued at \$1,326,155 less than their valuation would have been under the plan in effect at November 30, 1941, and net income is less by \$285,344.

INCOME AND EXCESS PROFITS TAXES

It is gratifying to know that all federal income and excess profits taxes have been satisfactorily settled and paid, and that at this time there are no undetermined federal taxes against the Company except for the current year 1942.

The Revenue Act of 1942 provides that fiscal year corporations with years ending after June 30 must compute income and excess profits taxes by use of the rates in the 1942 Act, generally speaking, for that portion of their fiscal year which occurs after June 30. The Company's provision for such taxes was determined accordingly.

The amount of the Company's taxable income exempt from excess profits taxes was not changed by the 1942 Act; however, because of increase in the rate of corporation surtax, the net income per share which can be earned in 1943 without being subject to excess profits taxes under present law has been reduced to approximately \$1.55.

DIVIDENDS

Dividends paid in 1942 were \$1.80 per share, 28 cents less than net income as finally determined. It is the Company's policy to maintain dividend rates at constant levels as far as practicable, rather than to follow closely the variations in net income from year to year.

Uncertainties attendant on an intensification of the war effort, such as probable further curtailment of operations due to shortages of materials and manpower, and the effect of excess profits taxes on net income, call for a conservative dividend policy at this time.

They also demand that particular emphasis be given to the importance of the closest supervision by management over all costs and expenses.

WAGES—VACATIONS

During this year a one week's vacation with pay was granted to factory employees; in addition, the wages of these employees were further increased, effective March 29, making total increases granted since January 1, 1941 substantially more than the formula established by the War Labor Board as the minimum for this period.

MANPOWER

More than 3200 employees of the Company have left to join the military forces of the United States. Replacement of these employees and others who left for work in war industries created difficult problems in maintaining efficient operation; however, by employing women in place of men wherever possible, and in other ways, factories have been kept well-manned for the production of all the shoes for which materials can be obtained.

The Company had 32,000 employees at the close of the year, and at one time during the year employment reached an all time peak of over 36,000. At this time almost half of our employees are women.

SHORTAGE OF MATERIALS AND QUALITY OF PRODUCT

The beginning of the fiscal year, December 1, 1941, was within a few days of the entry of the United States into active warfare. Restrictions by the War Production Board, necessary to conserve materials for the successful prosecution of the war, became more severe as the months passed. While procurement of all materials became more difficult, an acute shortage developed in sole leather, with the result that for some months past, the quantity of sole leather available for civilian shoes has to a great extent determined the industry's production of those shoes.

The Company's long experience in the utilization of sole leather and its application to a wide range of shoes has been and is helpful in making excellent use of available leather. The quality of our shoes has been affected only by the limitation of available materials and the necessary conservation and complications growing out of a state of war. The Company is determined to make the best shoes possible under present conditions and not to use those conditions as an excuse for lowering the moral standards of its product.

DISCONTINUANCE OF MORSE AND ROGERS BRANCH

The decreased production of shoes caused by shortage of materials created many problems in the distribution of footwear, such as the proper allocation of available shoes, the difficulty of travel by salesmen, and the important factor of overhead expense incident to decreased volume.

One of the results of careful consideration of these several problems was the decision to discontinue in November the Company's New York Branch, operated under the name of Morse and Rogers.

The Company is endeavoring to serve its former Morse and Rogers' customers who have previously looked to that branch as their major source of supply. Such customers are being given an opportunity to share fairly and equitably in the Company's available supply of shoes through other sales branches of the Company.

GOVERNMENT PRICE CONTROLS

The President's "Salary and Wage Freeze" in October climaxed a series of regulatory orders by the Government designed to prevent further increases in prices of all goods.

Shoe prices are controlled by the General Maximum Price Regulation effective May 11, 1942, while leather and hide prices have been controlled by earlier specific orders.

The Company deemed it advisable to set prices on its General Line Branch shoes below the ceilings established under the General Maximum Price Regulation in order better to serve its customers, most of whom did not have an opportunity in March to establish their retail prices on a replacement basis.

RENEGOTIATION OF GOVERNMENT CONTRACTS

Present law requires that the United States Army and other Governmental Agencies inquire into the profits of Contractors manufacturing goods for, or supplying services to the United States Government, and, under certain conditions, renegotiate the price basis in such contracts.

No such renegotiation steps have been taken up to this time with respect to our Company's Government Contracts, and it is not anticipated that any adjustments could reasonably be called for. However, any possible contingency in this respect is adequately provided for by the Reserve for Contingencies account.

RECONSTRUCTION OF WORN ARMY SERVICE SHOES

Since July, the Company, in cooperation with the Salvage and Surplus Products Division of the Quartermaster Corps of the United States Army, has reconstructed over 500,000 pairs of Army Service Shoes, most all of which had been worn to a point where they were beyond repair in cobbling shops at Army camps.

A complete men's welt shoe factory was laid out especially for this purpose. A number of difficult engineering problems were solved in working out efficient and economical factory methods for this operation which is essentially the manufacture of shoes with the use of good materials salvaged from worn-out shoes after thorough chemical sterilization. The "reconstructed" shoes when completed have almost the appearance of new shoes and are preferred by many soldiers because the uppers are broken in.

It is gratifying to know that the Salvage Division of the Quartermaster Corps has thus not only accomplished an appreciable saving in taxpayers' dollars but has conserved scarce materials that may be used for other important needs.

GENERAL

Both last year and this year the Nation's shoe production was well in excess of normal consumer requirements. This has prevented any serious shortage of shoes from developing as a result of an abnormal demand from consumers in recent months.

The shoe and leather industry has met promptly and completely all requirements of the Government for the many kinds of shoes and leather needed in the war effort; and from the beginning of the defense program, our Company has constantly been glad to offer its facilities to the full extent that Government Agencies could utilize them. Several of the Company's executives are serving the Government in Washington.

In spite of the many dislocations arising from the war, our entire organization has shown fine team work during the past year. Its continued full cooperation, coupled with the Company's sound policies and strong financial position, enable us to look forward with confidence in the Company's ability to meet successfully whatever problems may be associated with winning the war and the readjustment period thereafter.

FOR THE BOARD OF DIRECTORS

Frank C. Rand

Chairman of the Board.

Byron A. Gray

President.

INTERNATIONAL

CONSOLIDATED

As of November 30, 1925

ASSETS

CURRENT ASSETS:

| | |
|--|------------------------------------|
| Cash in Banks and on Hand..... | \$ 18,832,697.12 |
| United States Government Securities— | |
| Tax Notes \$10,638,000.00, Certificates of Indebtedness \$250,000.00, and De- fense Bonds \$150,000.00..... | \$ 11,038,000.00 |
| Less—Amount of Tax Notes applied against Federal Tax Liability, as per Contra..... | <u>9,800,000.00</u> 1,238,000.00 |
| Accounts Receivable: | |
| Customers, less Reserve for Cash Dis- counts and Doubtful Accounts..... | 16,039,677.10 |
| Traveling Advances to Salesmen and Sundry Accounts..... | <u>317,401.52</u> 16,357,078.62 |
| Inventories: | |
| At Cost (Determined on the “Last-In, First-Out” Method): | |
| Finished Shoes..... | 7,818,042.37 |
| Shoes in Process..... | 2,271,364.54 |
| Hides and Leather..... | 10,836,335.62 |
| At Lower of Cost or Market: | |
| Miscellaneous Raw Materials, Mer- chandise and Supplies on Hand and in Process..... | <u>11,152,682.45</u> 32,078,424.98 |
| TOTAL CURRENT ASSETS..... | <u>68,506,200.72</u> |
| Expenses Paid in Advance—Insurance Premiums, Taxes, and other Deferred Charges to Operations..... | 475,618.89 |
| Employees Notes Receivable (Under Installment Purchase Plans) secured by 3,400 shares of Company's Own Common Stock..... | 45,329.26 |
| Company's Own Common Stock—9,400 shares at Net Cost (at Quoted Market Prices \$263,200.00) | 243,133.86 |
| Advances to (\$880,000.00) and Investment in Associated Companies..... | 977,805.00 |
| Investment in Stocks of other Companies, Etc. (less Reserve).... | 222,971.68 |
| Post-War Refund of Federal Excess Profits Taxes (Estimated) | 104,848.49 |
| Physical Properties at Tanneries, Shoe Factories, Supply De- partments, and Sales Branches (Based on Appraisal as of April 30, 1925, plus subsequent Additions at Cost): | |
| Land and Water Rights..... | \$ 2,033,048.32 |
| Buildings and Structures..... | 21,888,831.58 |
| Machinery and Equipment..... | 18,918,062.23 |
| Lasts, Patterns, and Dies..... | 1.00 |
| TOTAL..... | <u>42,839,943.13</u> |
| Less—Reserve for Depreciation..... | <u>26,445,443.23</u> |
| Net Depreciated Value of Physical Properties.... | 16,394,499.90 |
| TOTAL..... | <u>\$ 86,970,407.80</u> |

SHOE COMPANY

BALANCE SHEET
December 30, 1942

LIABILITIES

CURRENT LIABILITIES:

| | |
|---|-------------------------|
| Accounts Payable for Merchandise, Expenses, and Payrolls..... | \$ 3,759,592.56 |
| Officers, Stockholders, and Employees Balances..... | 409,971.72 |
| Accrued Employees Vacations..... | 605,810.22 |
| Employees Partial Payments for War Bonds..... | 325,944.27 |
| Reserve for Federal Income and Excess Profits Taxes.....\$ 9,800,000.00 | |
| Less—United States Government Tax Notes Applied, as per Contra | <u>9,800,000.00</u> |
| TOTAL CURRENT LIABILITIES..... | 5,101,318.77 |
| Reserve for Contingencies..... | 1,000,000.00 |
| Insurance Reserves..... | 805,454.26 |
| CAPITAL STOCK: | |
| Common Stock — Authorized 4,000,000 shares without Nominal or Par Value, whereof Issued and Outstanding— 3,350,000 shares.....\$ 50,250,000.00 | |
| Earned Surplus..... | 29,813,634.77 |
| (Of the Earned Surplus, \$243,133.86 used for the purchase of Company's Own Common Stock, as per Contra) | |
| TOTAL CAPITAL AND SURPLUS..... | \$ 80,063,634.77 |
| TOTAL..... | \$ 86,970,407.80 |

INTERNATIONAL SHOE COMPANY

CONSOLIDATED INCOME ACCOUNT

For the year ended November 30, 1942

| | |
|---|---|
| Net Sales of Shoes and Other Manufactured Merchandise..... | \$ 144,256,388.17 |
| Cost of Shoes and Merchandise Sold, after charging Operating Expenses, Mainte- nance of Physical Properties, Selling, Ad- ministrative, and Warehouse Expenses, and Credit Losses, less Discount on Pur- chases..... | \$ 126,160,395.62 |
| Depreciation of Physical Properties..... | <u>1,091,579.09</u> |
| NET OPERATING PROFIT..... | <u>127,251,974.71</u> <u>17,004,413.46</u> |
| Miscellaneous Income (Net)..... | <u>79,747.11</u> |
| NET EARNINGS..... | <u>17,084,160.57</u> |
| Provision for Federal Income Taxes, including Excess Profits Taxes of \$5,951,013.07..... | 9,744,056.45 |
| Less—Post-War Refund of Federal Excess Profits Taxes (Estimated)..... | <u>104,848.49</u> <u>9,639,207.96</u> <u>7,444,952.61</u> |
| Addition to Reserve for Contingencies..... | <u>450,000.00</u> |
| NET INCOME FOR YEAR..... | <u>\$ 6,994,952.61</u> |

CAPITAL STOCK AND CONSOLIDATED SURPLUS ACCOUNT

Common Stock and Surplus, as at November 30, 1941:

| | |
|---|---|
| Common Stock (Outstanding 3,350,000 shares)..... | \$ 50,250,000.00 |
| Earned Surplus..... | <u>28,832,842.16</u> |
| | <u>79,082,842.16</u> |
| Net Income, for the year ended November 30, 1942..... | <u>6,994,952.61</u> <u>86,077,794.77</u> |

Dividends:

| | |
|--|---|
| Common Stock, \$1.80 per share..... | \$ 6,030,000.00 |
| Less—Dividends on Company's Own Common Stock..... | <u>15,840.00</u> <u>6,014,160.00</u> |
| | |

Common Stock and Surplus, as at November 30, 1942..... \$ 80,063,634.77

Divided as follows:

| | |
|---|---------------------------------------|
| Common Stock (Outstanding 3,350,000 shares)..... | <u>50,250,000.00</u> |
| Earned Surplus..... | <u>29,813,634.77</u> \$ 80,063,634.77 |

PEAT, MARWICK, MITCHELL & CO.
ACCOUNTANTS AND AUDITORS

St. Louis, Missouri, December 31, 1942.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERNATIONAL SHOE COMPANY,
St. Louis, Missouri.

We have examined the Consolidated Balance Sheet of the International Shoe Company and Subsidiary Companies as of November 30, 1942 and the statements of Consolidated Income and Surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Companies, and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Under the customary terms of the rental and royalty agreements covering machinery leased by the International Shoe Company, it is liable to the lessor for deferred license fees which are payable when such machinery is returned to the lessor, together with all return freight and repair charges. It is the consistent accounting procedure of the Corporation to charge as operating expenses all current rentals and royalties.

The International Shoe Company has made shipments during the year under contracts with the United States Government. These contracts are subject to renegotiation under the provisions of Section 403 of the Sixth Supplemental National Defense Appropriation Act, 1942. The Company has received no communication from the War Department with respect to any of its contracts requesting renegotiation or voluntary price reductions.

The International Shoe Company, during the fiscal year, extended the "last-in, first-out" method of valuing inventories to include finished shoes and shoes in process which has resulted in a lesser valuation of said inventories (by the amount of \$1,326,155.34) than would have resulted if the method of pricing finished shoes and shoes in process used in past years had been followed. This change resulted in a net income (after income and excess profits taxes) of \$285,344.49 below the amount which would have resulted from the continuation of the former accounting procedure.

In our opinion, the accompanying Consolidated Balance Sheet and related statements of Consolidated Income and Surplus present fairly the consolidated position of the International Shoe Company and Subsidiaries at November 30, 1942 and the result of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change made in the basis of valuing finished shoes and shoes in process referred to in the preceding paragraph, which has our approval.

PEAT, MARWICK, MITCHELL & CO.

OFFICERS

| | |
|-----------------------------|------------------------------|
| FRANK C. RAND | Chairman of the Board |
| JAMES T. PETTUS | Vice-Chairman of the Board |
| BYRON A. GRAY | President |
| ANDREW W. JOHNSON | Vice-President and Treasurer |
| PAUL B. Jamison | Vice-President |
| OLIVER F. PETERS | Vice-President |
| H. EDGAR JENKINS | Vice-President |
| ARTHUR B. FLETCHER | Vice-President |
| DICKSON S. STAUFFER | Vice-President |
| WILLIAM N. SITTON | Assistant Treasurer |
| ROBERT O. MONNIG | Comptroller and Asst. Sec'y |
| CARL E. BRUECKMANN | Secretary |

DIRECTORS

| | |
|---------------------|---------------------|
| ROBERT E. BLAKE | ANDREW W. JOHNSON |
| SAMUEL BOWN | J. LEE JOHNSON |
| CLARENCE H. FIELDER | ROBERT L. JORDAN |
| ARTHUR B. FLETCHER | ROBERT O. MONNIG |
| BYRON A. GRAY | WILLIAM H. MOULTON |
| H. ROY GREEN | OLIVER F. PETERS |
| EDWARD J. HOPKINS | JAMES T. PETTUS |
| FRED HUME | JAMES E. QUINN |
| LEWIS B. JACKSON | FRANK C. RAND |
| PAUL B. JAMISON | JOSEPH O. RAND |
| ALBERT H. JENKINS | WILLIAM N. SITTON |
| H. EDGAR JENKINS | DICKSON S. STAUFFER |

TRANSFER AGENTS

MANUFACTURERS' TRUST CO., NEW YORK, N. Y.
MISSISSIPPI VALLEY TRUST CO., ST. LOUIS, MO.

REGISTRARS

GUARANTY TRUST CO., NEW YORK, N. Y.
ST. LOUIS UNION TRUST CO., ST. LOUIS, MO.

SALES BRANCHES

ST. LOUIS

Roberts, Johnson & Rand
 Peters
 Friedman-Shelby
 Continental Shoemakers
 Pennant Shoe Co.
 Jefferson Shoe Co.

ST. LOUIS

Vitality Shoe Co.
 Queen Quality Shoe Co.
 Dorothy Dodd Shoe Co.
 Winthrop Shoe Co.
 Conformal Footwear Co.

BOSTON

Hutchinson-Winch

MANCHESTER, N. H.

Great Northern Shoe Co.
 Interstate Shoe Co.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

MISSOURI

Bland
 Cape Girardeau
 De Soto
 Fulton
 Hannibal
 Hermann
 Higginsville
 Jackson
 Jefferson City
 Kirksville
 Marshall
 Mexico
 Perryville
 Poplar Bluff
 St. Charles
 St. Clair
 St. Louis
 Sikeston
 Sullivan
 Sweet Springs
 Washington
 Windsor

ILLINOIS

Anna
 Belleville
 Chester
 Evansville
 Flora
 Jerseyville
 Mt. Vernon
 Olney
 Quincy
 Springfield
 Steeleville

NEW HAMPSHIRE

Claremont
 Manchester
 Nashua
 Newport

KENTUCKY

Paducah

ARKANSAS

Malvern

TANNERIES

ILLINOIS

South Wood River

NORTH CAROLINA

Morganton
 North Wilkesboro
 (Extract Plant)

MISSOURI

St. Louis

PENNSYLVANIA

Philadelphia

NEW HAMPSHIRE

Manchester
 Merrimack

WEST VIRGINIA

Marlinton

